

Message Text

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ACTION EA-12

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FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 3397
INFO USLO PEKING
AMEMBASSY TAIPEI
AMEMBASSY TOKYO

C O N F I D E N T I A L HONG KONG 12640

E.O. 11652: GDS
TAGS: ETRD, EINV, ECIN, ECON, CH, US
SUBJECT: PRC PROMOTES "PAY-BACK SCHEME" IN HONG KONG

REF: (A) HONG KONG 7681; (B) HONG KONG 7750

1. ACCORDING TO TWO HONG KONG BUSINESSMEN WITH PRC CONNECTIONS TO WHOM CONGENOFFS HAVE SPOKEN IN THE PAST WEEK, THE PRC IN RECENT WEEKS HAS BEEN ACTIVELY PROMOTING ITS "PAY-BACK SCHEME" HERE. THE SCHEME, FIRST PROPOSED BY MINISTER OF FOREIGN TRADE LI CHIANG IN AN INTERVIEW PUBLISHED IN THE MARCH 1978 EDITION OF CHINA'S FOREIGN TRADE, WOULD ESSENTIALLY TRADE ADVANCED FOREIGN TECHNOLOGY AND PLANT EQUIPMENT FOR CHINESE PRODUCED GOODS OVER THE COURSE OF A SHORT-TERM AGREEMENT. SEVERAL HIGH-LEVEL PRC NEGOTIATORS FROM PEKING REPORTEDLY WERE IN HONG KONG WITHIN THE PAST TWO WEEKS TO DISCUSS THE PLAN WITH INTERESTED HONG KONG BUSINESSMEN.

2. PRC TRADE OFFICIALS IN HONG KONG ARE ENCOURAGING LOCAL CHINESE AND FOREIGN BUSINESSMEN TO ENTER INTO SHORT-TERM (THREE TO FIVE YEAR) AGREEMENTS WITH THE PRC UNDER WHICH THE
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BUSINESSMEN WOULD SUPPLY EQUIPMENT, MATERIAL, DESIGNS, TECHNICIANS AND SUPERVISORY PERSONNEL, WITH THE PRC SUPPLYING FACTORY BUILDINGS, OTHER NECESSARY INFRASTRUCTURE AND LABOR FOR ENTERPRISES TO BE ESTABLISHED IN CHINA. THE PLAN IS TERMED A "PAY-BACK SCHEME" BECAUSE DURING THE TERM OF THE AGREEMENT THE PRODUCTS PRODUCED AT THE CHINESE FACTORY WOULD ALL BE EXPORTED TO PAY BACK THE FOREIGN

FIRM (THE "BUYER") FOR THE CAPITAL IT INVESTED, AS WELL AS TO GIVE IT A PROFIT. FOREIGNERS, INCLUDING OVERSEAS ETHNIC CHINESE, WOULD NOT BE PERMITTED TO OWN SHARES IN THE PLANTS, AND ALL EQUIPMENT AND MATERIAL SUPPLIED BY THE FOREIGN "BUYER" WOULD BE OWNED OUTRIGHT BY THE PRC AT THE EXPIRATION OF THE AGREEMENT. THE PRC IS HOLDING OUT THE PROSPECT THAT IT MAY DESIRE TO EXTEND SUCH AGREEMENTS OR MAKE OTHER ARRANGEMENTS FOR THE FOREIGN "BUYER" TO PROVIDE CONTINUING TECHNICAL ASSISTANCE AFTER THE ORIGINAL AGREEMENT HAS RUN ITS COURSE.

3. THE "PAY-BACK SCHEME" AS WELL AS OTHER PRC ECONOMIC INITIATIVES AND ACTIVITIES IN HONG KONG ARE WELL DESCRIBED IN AN ARTICLE PUBLISHED IN THE SEPTEMBER EDITION OF THE SEVENTIES (CH'I-SHIH NIEN-TAI), A HONG KONG MAGAZINE WHICH IS ALMOST CERTAINLY AN ORGAN OF THE PRC UNITED FRONT APPARATUS HERE. FBIS HAS TRANSLATED THE ARTICLE ("THE TREND OF COMMUNIST CHINA'S ECONOMIC ACTIVITIES IN HONG KONG") AND WIRED IT TO WASHINGTON, USLO PEKING AND AMEMBASSY TOKYO.

4. COMMENT: BY DANGLING THE POSSIBILITY OF PARTICIPATING IN PRODUCTION IN CHINA THROUGH THE "PAY-BACK SCHEME", THE PRC HOPES TO LURE HONG KONG AND FOREIGN CAPITALISTS TO TEACH IT HOW TO PRODUCE AND MARKET FOR EXPORT PROFITABLE LIGHT INDUSTRIAL AND DURABLE CONSUMER GOODS SUCH AS WATCHES,
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TLEVISIONS, REFRIGERATORS, ELECTRIC FANS, RECORD PLAYERS, TEXTILES, AND SHOES. IT IS POSSIBLE THAT IN SOME INDUSTRIAL SECTORS (SUCH AS COTTON YARN) HONG KONG CAPITAL-ISTS MAY INDEED BE INTERESTED IN THE PRC'S OVERTURES SINCE, FOR A VARIETY OF REASONS (PRIMARILY LAND AND LABOR)COSTS, HONG KONG IS RAPIDLY LOSING ITS COMPETITIVE ADVANTAGE.
SHOESMITH

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